

## APPENDIX E: IRAQI FUNDS

This appendix provides an update on Iraqi funds used for reconstruction. It includes information on these categories of funds:

- seized
- vested
- Development Fund for Iraq (DFI)
- Oil-for-Food (OFF) Program

Iraqi funds available for reconstruction can be grouped into three categories—seized, vested, and DFI deposits:

- Seized funds are former Iraqi regime monies confiscated by coalition forces
- Vested funds are Iraqi funds in U.S. banks that were frozen by executive order, vested in the U.S. Department of Treasury (Treasury), and authorized for use to benefit the people of Iraq
- The DFI was created by the Coalition Provisional Authority (CPA), and the United Nations (UN) concurred in May 2003 (UNSCR 1483). The DFI contains proceeds from Iraqi oil sales, repatriated assets from the United States and other nations, and deposits from unencumbered OFF program funds. Since the transfer of governance authority to the Iraqi Interim Government (IIG) on June 28, 2004, total deposits to the DFI can only be estimated, because the Special Inspector General for Iraq Reconstruction (SIGIR) does not have access to information on the status of DFI monies now under the control of the Iraqi government. DFI totals for funds obligated and disbursed are not available. The DFI provides funds for the Iraqi National Budget, primarily from current oil sales

### SEIZED FUNDS

Coalition military forces seized \$926.8 million in funds from the former Iraqi regime. Virtually all of the seized funds have been allocated. Current Defense Finance and Accounting Service (DFAS) accounting data indicate that \$898.4 million (96.9%) were obligated and \$869.5 million (93.8%) expended as of December 31, 2005. U.S. Army accounting officials have not reconciled or fully audited the totals for seized funds. Most seized assets were used for:

- non-ministry repairs and humanitarian assistance
- Iraqi ministry operations
- Rapid Regional Response Program (RRRP or R3P)
- Commander's Emergency Response Program (CERP)
- fuel products (propane, diesel, heating oil, etc.) for the Iraqi people

For a detailed list of seized funds program expenditures, see Table E-1.

### VESTED FUNDS

In response to a UN resolution passed after the Persian Gulf War, the United States froze Iraqi assets (UNSCR 661, August 1990; Presidential Executive Order 12817 of October 23, 1992). Presidential Executive Order 13290 of March 20, 2003, vested frozen funds for use in Iraq. As of December 31, 2005, \$1.724 billion had been transferred for use in Iraq, of which \$1.707 billion (99%) had been obligated, and

## SEIZED CURRENCY, AS OF DECEMBER 31, 2005

PROGRAM CATEGORY	CEILINGS	OBLIGATIONS	DISBURSEMENTS
Non-ministry Repair/Reconstruction/ Humanitarian Assistance	\$317,775,547	\$317,721,698	\$289,877,607
Ministry Operations	\$268,551,462	\$262,732,709	\$262,720,899
Brigade Commanders Discretionary Fund & CERP	\$200,128,000	\$199,201,009	\$198,364,443
Benzene and Liquid Propane Gas Purchase	\$90,000,000	\$87,219,622	\$87,219,622
Stipend Pay	\$45,000,000	\$30,837,109	\$30,837,109
Iraqi Constitutional Convention IT Support	\$3,823,000	\$0	\$0
Ministry of Finance–MANPADS Weapons Buyback Program	\$1,500,000	\$715,325	\$457,225
Undistributed Disbursements			
<b>Total</b>	<b>\$926,778,009</b>	<b>\$898,427,472</b>	<b>\$869,476,905</b>

TABLE E-1

\$1.689 billion (98%) had been expended, according to current accounting records provided by DFAS.

Vested funds are used primarily for:

- Iraqi civil servant salaries, pensions, and individual relief payments
- Iraqi ministry operations
- repair and reconstruction

Although most frozen Iraqi assets were vested and sent to Iraq, a balance of \$396.6

million remained. The U.S. government transferred \$208.6 million to the DFI and set aside \$128 million for perfected judgments.

For a detailed list of expenditures from vested funds, see Table E-2.

## DEVELOPMENT FUND FOR IRAQ

The DFI was established by CPA with UN concurrence in May 2003 to serve as the primary financial vehicle to channel revenue from Iraqi

## VESTED ASSETS, AS OF DECEMBER 31, 2005

PROGRAM CATEGORY	CEILINGS	OBLIGATIONS	DISBURSEMENTS
Salaries Regular Payments Iraqi	\$1,009,825,000	\$1,009,274,635	\$1,006,383,958
Ministry Operations	\$375,555,000	\$364,457,311	\$356,818,300
Non Ministry Repair	\$129,532,000	\$125,685,360	\$120,571,956
Regular Pension Payments	\$99,510,000	\$99,509,995	\$99,509,995
Salaries Emergency Payments	\$79,924,000	\$78,841,040	\$78,826,590
Mobile Radios (Emergency)	\$15,800,000	\$15,800,000	\$15,424,582
Hospital Generators	\$9,000,000	\$9,000,000	\$8,197,645
Emergency Projects <200k	\$2,475,000	\$2,474,705	\$2,474,705
Fire Stations	\$2,186,000	\$1,239,965	\$1,094,965
Stipend Pay	\$190,000	\$89,480	\$0
Other Salaries Special Workers	\$134,000	\$133,620	\$133,620
<b>Total</b>	<b>\$1,724,131,000</b>	<b>\$1,706,506,111</b>	<b>\$1,689,436,316</b>

TABLE E-2

oil sales, unencumbered OFF deposits, and repatriated Iraqi assets to the relief and reconstruction of Iraq.

### DFI TRANSITION SUB-ACCOUNT

When the IIG assumed governance authority, responsibility for the DFI sub-account was transferred to the Chief of Mission on June 28, 2004. SIGIR no longer has access to or visibility of DFI account status, beyond the portion of DFI authorized by the Iraqi Minister of Finance for the U.S. government to disburse against DFI-funded contracts awarded by the CPA.

Before the transfer of governance authority to the IIG, the administration of contracts awarded by the CPA from DFI funds was delegated to the U.S. government. A separate sub-account, the “Central Bank of Iraq/Development Fund for Iraq/Transition,” was created at the Federal Reserve Bank of New York, to enable payment for work on those contracts. In addition to the Federal Reserve funds, cash has been provided to enable payment in Iraq for those projects that require this method of payment.

On June 15, 2004, the Iraqi Minister of Finance designated the Director of the Program Management Office (PMO), now the Project and Contracting Office (PCO), to administer and make payments on those DFI contracts that:

- were entered into before June 28, 2004
- were not secured by a letter of credit
- did not exceed the limit of \$800 million

This initial limit was intended as a first step toward continuity for these contracts, as their overall liability substantially exceeds this amount. The Minister of Finance increased the amount provided to the DFI transition sub-account to meet contract obligations at his discretion.

A total of \$217.7 million of DFI cash that was in the possession of CPA officials when governance transferred to the Iraqi Transitional Government (ITG) was retained for payment of DFI obligations. An additional \$84 million of Iraqi funds passed through the DFI sub-account to U.S. military units to fund a matching grant by the ITG [Commanders Humanitarian Relief and Reconstruction Program (CHRRP)]. This

### DFI TRANSITION SUB-ACCOUNT DEPOSITS, AS OF DECEMBER 31, 2005 (Millions)

TRANSFER/DEPOSIT	DATE	AMOUNT
Starting Balance for DFI Sub-account	06/28/2004	\$800.00
Transfer of Vested Funds into the DFI to Buy Specific Letters of Credit	08/17/2004	3.33
Transfer of Vested/Seized Funds to the DFI to Buy Specific Letters of Credit	08/31/2004	18.04
Request \$400M Increase	09/20/2004	400.00
Transfer of Seized Funds to DFI to Buy Specific Letters of Credit	10/8/2004	0.45
Request \$800M Increase	11/23/2004	800.00
Request \$800M Increase	12/24/2004	800.00
Interest Earned & Posted by Federal Reserve Bank <sup>a</sup>	12/31/2005	11.10
<b>Total</b>		<b>\$2,832.92</b>

Note: data not formally reviewed or audited

<sup>a</sup>Includes prior period interest of \$5.59M + current period interest of \$5.51M. Interest earned on account balances is credited to Iraqi Transitional Government fund (See Table E-4).

TABLE E-3

**DFI SUB-ACCOUNT FUND STATUS, AS OF DECEMBER 2005** (Millions)

SOURCES OF FUNDS	BANK	CASH
Beginning Balance	\$800.00	\$217.70
New Income Additional IIG Funds	\$2,027.32	
<b>Total</b>	<b>\$2,827.32</b>	<b>\$217.70</b>
Uses of Funds	Bank	Cash
Allocated and Paid	\$2,023.18	\$174.60
Allocated and Unpaid	\$103.93	\$0.00
<b>DFI Balance</b>	<b>\$700.73</b>	<b>\$43.10</b>

TABLE E-4

transfer was executed for ease of currency disbursement and is not part of the execution of DFI sub-account contracts.

In December 2004, outstanding DFI sub-account liabilities were estimated at \$3.5 billion. After subtracting the \$3.017 billion provided by the ITG, there remained an unfunded liability of \$486.8 million. In the April 2005 *Section 2207 Report*, the Department of State revised this liability to \$42 million. Table E-4 provides the December 31, 2005 DFI fund balance of \$43.1 million.

### OTHER IRAQI POTENTIAL REPATRIATED FUNDS

The ITG retains primary responsibility for seeking worldwide recovery, under UN resolutions, of Iraqi assets frozen in response to past actions of the former regime. The U.S. government continues to actively assist the ITG in its search and recovery effort, but no longer has access to information on recovered asset balances.

### THE OIL-FOR-FOOD PROGRAM

The UN OFF program traded Iraqi oil for goods and services (primarily food) to alleviate suffering caused by the UN embargo on Iraqi oil exports. The program's oil sales operation

began in December 1996, and its last oil sales occurred in March 2003—just before Operation Iraqi Freedom began. Food distribution was interrupted during hostilities. On May 22, 2003, the UN lifted its sanctions and gave the OFF program six months to conclude operations. On November 21, 2003, the UN OFF program officially ended.

In March 2005, the UN released unaudited financial statements for calendar year 2004, but not for calendar year 2003. This omission precludes any substantive further analysis because activities in 2003 included vital surplus uncommitted OFF funds to the DFI when previously obligated amounts become available as unexecuted letters of credit expire. As of June 30, 2004, \$8.6 billion was transferred to the DFI from the OFF program (\$8.1 billion while under U.S. control). The ITG is now responsible for the oversight of OFF contracts. The ITG will decide which contracts will be allowed to expire unexecuted or partially executed, and which will be honored with the delivery of goods and services already paid for by OFF past revenues.